

Hong Kong

ADD (no change)

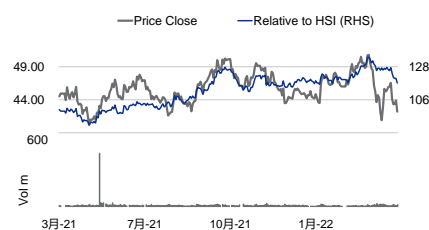
Consensus ratings*: Buy 34 Hold 2 Sell 1

Current price:	HK\$42.20
Target price:	HK\$54.40 ▲
Previous target:	HK\$53.90
Up/downside:	28.9%
CGI / Consensus:	-1.8%
Reuters:	2319.HK
Bloomberg:	2319 HK
Market cap:	US\$21,307m HK\$166,828m
Average daily turnover:	US\$62.39m HK\$487.2m
Current shares o/s:	3,945m
Free float:	68.7%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 1.9%.
- FY23F EPS increased by 0.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-16.9	-4.5	-5.2
Relative (%)	-13.7	1.5	17.3

Major shareholders	% held
COFCO	16.3
Danone	9.9
Arla	5.3

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China Mengniu Dairy

Cost pressure reduced; mix upgrade continues

- Mengniu reported a revenue increase of 18.6% yoy to Rmb88bn, and net profit growth of 42.6% yoy to Rmb5.0bn in FY21, slightly above our expectations, thanks to a higher profit contribution from China Modern Dairy and other associates.
- We now expect FY22F sales growth of 12.6% yoy, and net profit growth of 16.5% yoy, since we expect stable GPM due to the flatish raw milk price, and a lower sales and marketing expenses ratio in FY22F.
- Mengniu's fresh milk business became profitable in FY21, and it aims to achieve an OPM higher than the Group average in the next three years.
- The cheese business aims to become two to three times larger than the second-place player, complemented by Arla and Milkground.
- Reiterate Add with new DCF-based TP of HK\$54.4.

Raw milk price to be stable in FY22F

Excluding the effect of the revenue contribution of Rmb1.1bn and Rmb421m from the consolidation of Aice and Burra Foods, organic revenue growth was 13.9% yoy in FY21. FY21 yoy sales growth of the liquid milk, ice cream, milk formula and others (mainly cheese) segments was 12.9%, 61.0% (organic growth of 19%), 8.2%, and 126.3% (including 41% growth from cheese products), respectively. The FY21 gross margin was 36.7%, down by 1% pt yoy, slightly below our expectation, owing to a raw milk price increase of about 11% yoy in 2H21. The FY21 operating margin improved by 0.9% pt yoy to 5.5%, because of more efficient cost control. Net profit grew 42.6% yoy to Rmb5.0bn in FY21, slightly above our expectation, thanks to a higher profit contribution from China Modern Dairy. We now expect FY22F sales growth of 12.6% yoy and net profit growth of 16.5% yoy because of the flatish raw milk price and lower expenses ratio. We expect Mengniu to continue to improve its product mix by launching new high-end products in FY22F. New products accounted for 15% of Mengniu's total sales in FY21. Since the dairy cow feed price is still on an upward trend, we expect the raw milk price to be flatish yoy in FY22F. Mengniu plans to reduce the sales and marketing expenses ratio to improve its OPM. Management said the current Covid situation should not impact revenue growth significantly but will cause some short-term logistics and other problems.

High-end products performed well in FY21

Sales of Milk Deluxe grew by 33% yoy to over Rmb30bn, driven by the new dessert organic pure milk product and digital membership operations. Net revenue for the fresh milk business increased by 85% yoy, the market share improved from 11.1% to 13.4%, and the business became profitable in FY21. Mengniu has seven fresh milk factories that can support a sales scale of Rmb10bn for its high-end Shiny Meadow fresh milk. Mengniu's cheese business, complemented by Arla and Milkground, launched high-end fresh milk-based cheese products, explored consumption scenarios in the catering, bakery and milk tea sectors, and aims to become two to three times larger than the second-place player. Mengniu plans to consolidate Milkground when the authorities approve it. With the consolidation of Aice, Mengniu's goal for its ice-cream business is to be ranked number one in the Asian market. Sales growth of Yashili's milk powder business was 21.5% yoy in FY21, with 76% yoy growth in adult milk powder sales. The high-end adult product Yourui will be a major investment focus for Yashili in the future.

Reiterate Add with new DCF-based TP of HK\$54.4

We fine-tuned our FY22F and 23F forecasts by -1.9% and 0.7%, respectively, and rolled over our forecasts to FY24F. We see large growth potential for a mix upgrade, distribution channel reforms and global expansion. Positive catalysts include better margin improvement and stronger sales growth. The main risks are stronger price competition and a higher raw milk price.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	76,035	88,141	99,262	109,056	119,690
Operating EBITDA (Rmbm)	4,883	6,149	7,274	8,718	9,847
Net Profit (Rmbm)	3,525	5,026	5,859	7,028	7,999
Core EPS (Rmb)	0.89	1.27	1.49	1.79	2.04
Core EPS Growth	(11.1%)	42.8%	17.1%	19.9%	13.8%
FD Core P/E (x)	38.30	26.82	22.90	19.10	16.78
DPS (Rmb)	0.27	0.38	0.45	0.54	0.61
Dividend Yield	0.79%	1.12%	1.31%	1.57%	1.79%
EV/EBITDA (x)	28.20	22.97	18.68	14.95	12.59
P/FCFE (x)	21.62	NA	25.09	20.76	17.57
Net Gearing	20.3%	40.7%	26.4%	13.3%	1.6%
P/BV (x)	4.07	3.66	3.20	2.80	2.47
ROE	11.4%	14.4%	14.9%	15.6%	15.6%
% Change In Core EPS Estimates			(1.88%)	0.68%	
CGI/consensus EPS (x)			0.93	0.94	1.02

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Cost pressure reduced; mix upgrade continues

Figure 1: Mengniu earnings results

(Rmb m)	2H20	2H21	yoy	FY20	FY21	yoy
Turnover	38,501.4	44,268.0	15.0%	76,034.8	88,141.5	15.9%
Mengniu	36,497.1	41,990.2	15.1%	72,385.6	85,738.5	18.4%
Yashili	2,004.3	2,277.8	13.6%	3,649.2	2,402.9	-34.2%
Cost of sales	-24,524.5	-27,399.0	11.7%	-47,405.6	-55,751.6	17.6%
Gross profit	13,976.9	16,869.1	20.7%	28,629.3	32,389.9	13.1%
Mengniu	13,265.5	16,224.3	22.3%	27,295.4	30,929.9	13.3%
Yashili	711.4	644.8	-9.4%	1,333.8	1,460.0	9.5%
Gross margin	36.3%	38.1%	1.8ppt	37.7%	36.7%	-0.9ppt
Mengniu	36.3%	38.6%	2.3ppt	37.7%	36.1%	-1.6ppt
Yashili	35.5%	28.3%	-7.2ppt	36.6%	60.8%	24.2ppt
Other operating income	908.4	1,202.7	32.4%	1,204.8	1,617.7	34.3%
Distribution costs	-10,041.3	-10,599.6	5.6%	-21,540.9	-23,487.7	9.0%
Distribution costs as % of sales	26.1%	23.9%	-2.1ppt	28.3%	26.6%	-1.7ppt
General and administrative expenses	-1,694.0	-1,890.0	11.6%	-3,132.9	-3,524.3	12.5%
G & A expenses as % of sales	4.4%	4.3%	-0.1ppt	4.1%	4.0%	-0.1ppt
Other operating expenses	-890.0	-1,553.1	74.5%	-1,943.8	-2,105.1	8.3%
Other operating expenses as % of sales	2.3%	3.5%	1.2ppt	2.6%	2.4%	-0.2ppt
Operating profit	2,260.0	4,029.1	78.3%	3,216.4	4,890.5	52.0%
Mengniu	2,217.6	4,198.0	89.3%	3,161.5	5,035.4	59.3%
Yashili	42.4	-168.9	-498.5%	54.9	-144.8	-363.7%
Operating margin	5.9%	9.1%	3.2ppt	4.2%	5.5%	1.3ppt
Mengniu	6.1%	10.0%	3.9ppt	4.4%	5.9%	1.5ppt
Yashili	2.1%	-7.4%	-9.5ppt	1.5%	-6.0%	-7.5ppt
Share of profits of associates	220.1	361.0	64.0%	426.0	693.3	62.8%
Net finance charges	923.8	1,244.5	34.7%	512.4	284.3	-44.5%
Profit before tax	2,752.5	4,502.9	63.6%	4,154.8	5,868.2	41.2%
Tax	-385.7	-474.8	23.1%	-653.2	-904.5	38.5%
Profit after tax before minority interest	2,366.8	4,028.1	70.2%	3,501.6	4,963.7	41.8%
Minority interest	4.3	4.3	0.0%	23.5	61.9	163.9%
Net profit	2,371.1	4,032.4	70.1%	3,525.0	5,025.5	42.6%
Mengniu + CMD	2,337.7	4,096.5	75.2%	3,473.5	5,067.1	45.9%
Yashili	33.4	-64.1	-291.7%	51.6	-41.5	-180.5%

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Domestic raw milk price (Rmb/kg)


SOURCES: CGIS RESEARCH, MINISTRY OF AGRICULTURE

Figure 3: Mengniu earnings revision

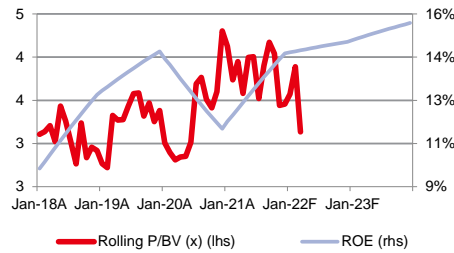
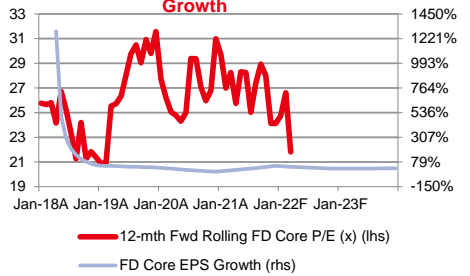
Key assumptions	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (Rmbm)	97,938	99,262	1.4%	107,224	109,056	1.7%	N/A	119,690	N/A
Overall gross margin	37.9%	36.6%	-1.2%	38.2%	37.2%	-1.0%	N/A	37.4%	N/A
-Mengniu standalone	37.6%	36.6%	-1.1%	37.9%	37.1%	-0.7%	N/A	37.3%	N/A
-Yashili	42.1%	37.6%	-4.6%	43.1%	38.1%	-5.1%	N/A	39.1%	N/A
Overall operating margin	6.7%	5.8%	-0.8%	7.1%	6.4%	-0.6%	N/A	6.7%	N/A
-Mengniu standalone	6.8%	6.0%	-0.8%	7.2%	6.7%	-0.6%	N/A	6.9%	N/A
-Yashili	3.9%	2.5%	-1.4%	4.0%	3.0%	-1.0%	N/A	3.5%	N/A
Mengniu's standalone net profit	5,339	5,103	-4.4%	6,185	6,129	-0.9%	N/A	6,925	N/A
Share of profits from CMD	540	647	19.8%	683	764	11.9%	N/A	891	N/A
Yashili's profit attributable to Mengniu	92	109	18.6%	112	134	19.5%	N/A	182	N/A
Overall reported net profit	5,971	5,859	-1.9%	6,980	7,028	0.7%	N/A	7,999	N/A
Core earnings	5,971	5,859	-1.9%	6,980	7,028	0.7%	N/A	7,999	N/A

SOURCES: CGIS RESEARCH

Figure 4: Mengniu DCF valuation

DCF valuation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	
EBIT	5,786.5	7,016.7	8,020.7	9,205.8	10,606.8	12,268.2	14,244.3	16,602.1	19,424.0	22,811.8	26,891.9	31,821.3	37,795.7	
Taxes	-1,098.9	-1,318.6	-1,506.1	-1,728.6	-1,991.7	-2,303.7	-2,674.8	-3,117.5	-3,647.4	-4,283.5	-5,049.7	-5,975.3	-7,097.2	
NOPAT	4,687.7	5,698.1	6,514.6	7,477.1	8,615.1	9,964.5	11,569.6	13,484.6	15,776.6	18,528.3	21,842.2	25,845.9	30,698.5	
NOPAT growth	17.9%	21.6%	14.3%	14.8%	15.2%	15.7%	16.1%	16.6%	17.0%	17.4%	17.9%	18.3%	18.8%	
D&A	1,487.6	1,701.2	1,826.2	1,844.5	1,862.9	1,881.6	1,900.4	1,919.4	1,938.6	1,958.0	1,977.5	1,997.3	2,017.3	
Funds from operation	6,175.2	7,399.3	8,340.9	9,321.6	10,478.0	11,846.1	13,470.0	15,404.0	17,715.2	20,486.2	23,819.7	27,843.3	32,715.8	
Change in net working Capital	572.6	331.7	419.0	423.2	427.5	431.7	436.1	440.4	444.8	449.3	453.8	458.3	462.9	
Cash flow from operation	6,747.8	7,731.0	8,759.9	9,744.9	10,905.5	12,277.8	13,906.0	15,844.4	18,160.0	20,935.5	24,273.5	28,301.6	33,178.7	
Capex	-2,500.0	-2,500.0	-2,500.0	-2,525.0	-2,550.3	-2,575.8	-2,601.5	-2,627.5	-2,653.8	-2,680.3	-2,707.1	-2,734.2	-2,761.6	
Free cash flow from operation	4,247.8	5,231.0	6,259.9	7,219.9	8,355.2	9,702.1	11,304.5	13,216.9	15,506.2	18,255.2	21,566.4	25,567.4	30,417.1	
FCF growth	1137.0%	23.1%	19.7%	15.3%	15.7%	16.1%	16.5%	16.9%	17.3%	17.7%	18.1%	18.6%	19.0%	
Terminal free cash flow	538,566.7					Assumptions								
Total discounted free cash flow	87,106.4					Equity Beta								0.95
Present value of terminal free cash flow	182,603.8					Risk Free Rate								4.0%
						Market Risk Premium								6.8%
Total present value of forecasted free cash flows	269,710.1					Cost of Equity								10.5%
Less: Net Debt / (Cash)	12,471.6					Cost of Debt								3.0%
Equity Value	257,238.6					Effective Tax Rate								24.5%
No. of outstanding shares (millions)	3,927.4					Target Gearing								20.0%
Per share Equity Value (Rmb)	65.5					WACC								8.8%
Exchange rate	0.8					Terminal growth rate								3.0%
Target price (HK\$)	54.40													

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	76,035	88,141	99,262	109,056	119,690
Gross Profit	28,629	32,390	36,364	40,553	44,745
Operating EBITDA	4,883	6,149	7,274	8,718	9,847
Depreciation And Amortisation	-1,667	-1,259	-1,488	-1,701	-1,826
Operating EBIT	3,216	4,891	5,787	7,017	8,021
Financial Income/(Expense)	512	284	381	396	412
Pretax Income/(Loss) from Assoc.	426	693	871	1,032	1,213
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	4,155	5,868	7,038	8,445	9,646
Exceptional Items					
Pre-tax Profit	4,155	5,868	7,038	8,445	9,646
Taxation	-653	-905	-1,099	-1,319	-1,506
Exceptional Income - post-tax					
Profit After Tax	3,502	4,964	5,939	7,127	8,140
Minority Interests	23	62	-80	-99	-141
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,525	5,026	5,859	7,028	7,999
Recurring Net Profit	3,525	5,026	5,859	7,028	7,999
Fully Diluted Recurring Net Profit	3,525	5,026	5,859	7,028	7,999

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	4,883	6,149	7,274	8,718	9,847
Cash Flow from Invt. & Assoc.					
Change In Working Capital	967	1,158	573	332	419
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	830	-5	720	837	964
Net Interest (Paid)/Received	-580	-644	-780	-819	-860
Tax Paid	-753	-1,310	-1,099	-1,319	-1,506
Cashflow From Operations	5,348	5,348	6,688	7,749	8,864
Capex	-4,414	-6,047	-2,500	-2,500	-2,500
Disposals Of FAs/subsidiaries	126	0	0	0	0
Acq. Of Subsidiaries/investments	-1,224	-6,667	0	0	-0
Other Investing Cashflow	10,334	-5,439	1,161	1,216	1,273
Cash Flow From Investing	4,822	-18,153	-1,339	-1,284	-1,227
Debt Raised/(repaid)	-3,926	4,108	0	0	0
Proceeds From Issue Of Shares	257	0	0	0	0
Shares Repurchased					
Dividends Paid	-785	-1,058	-712	-1,058	-1,506
Preferred Dividends					
Other Financing Cashflow	-116	-11	0	0	0
Cash Flow From Financing	-4,571	3,038	-712	-1,058	-1,506
Total Cash Generated	5,599	-9,767	4,637	5,406	6,131
Free Cashflow To Equity	6,244	-8,697	5,349	6,465	7,637
Free Cashflow To Firm	10,750	-12,161	6,129	7,284	8,497

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	11,397	11,217	15,853	21,260	27,390
Total Debtors	2,991	4,162	4,355	4,814	5,317
Inventories	5,512	6,485	7,206	7,942	8,792
Total Other Current Assets	11,606	9,156	10,253	12,591	15,355
Total Current Assets	31,507	31,020	37,667	46,607	56,853
Fixed Assets	15,276	19,955	20,967	21,766	22,440
Total Investments	16,878	30,092	30,315	30,583	30,905
Intangible Assets	12,601	12,857	12,784	12,711	12,639
Total Other Non-Current Assets	3,885	4,178	4,178	4,178	4,178
Total Non-current Assets	48,640	67,081	68,244	69,238	70,161
Short-term Debt	4,924	4,265	4,265	4,265	4,265
Current Portion of Long-Term Debt					
Total Creditors	7,969	8,804	9,930	10,908	12,037
Other Current Liabilities	13,251	16,003	17,460	20,347	23,753
Total Current Liabilities	26,144	29,072	31,655	35,521	40,055
Total Long-term Debt	14,020	24,060	24,060	24,060	24,060
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,734	2,970	2,970	2,970	2,970
Total Non-current Liabilities	16,754	27,030	27,030	27,030	27,030
Total Provisions	0	0	0	0	0
Total Liabilities	42,899	56,102	58,685	62,551	67,085
Shareholders' Equity	32,983	36,826	41,973	47,942	54,435
Minority Interests	4,265	5,174	5,254	5,353	5,494
Total Equity	37,248	41,999	47,226	53,295	59,929

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(3.8%)	15.9%	12.6%	9.9%	9.8%
Operating EBITDA Growth	(3.8%)	25.9%	18.3%	19.8%	13.0%
Operating EBITDA Margin	6.42%	6.98%	7.33%	7.99%	8.23%
Net Cash Per Share (Rmb)	-1.92	-4.34	-3.18	-1.80	-0.24
BVPS (Rmb)	8.39	9.34	10.69	12.21	13.86
Gross Interest Cover	5.62	6.58	7.42	8.56	9.32
Effective Tax Rate	15.7%	15.4%	15.6%	15.6%	15.6%
Net Dividend Payout Ratio	25.3%	25.4%	25.3%	25.3%	25.2%
Accounts Receivables Days	15.86	14.81	15.66	15.34	15.49
Inventory Days	40.93	39.27	39.73	40.36	40.86
Accounts Payables Days	56.78	54.91	54.36	55.51	56.03
ROIC (%)	6.5%	13.5%	14.1%	16.9%	19.1%
ROCE (%)	7.6%	9.4%	9.5%	10.5%	10.9%
Return On Average Assets	4.69%	6.32%	6.61%	7.34%	7.68%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total sales volume growth (%)	-7.4%	14.0%	7.2%	4.5%	5.5%
Overall average selling price growth (%)	3.4%	1.5%	4.5%	4.7%	4.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

China Mengniu Dairy (2319 HK)

RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

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